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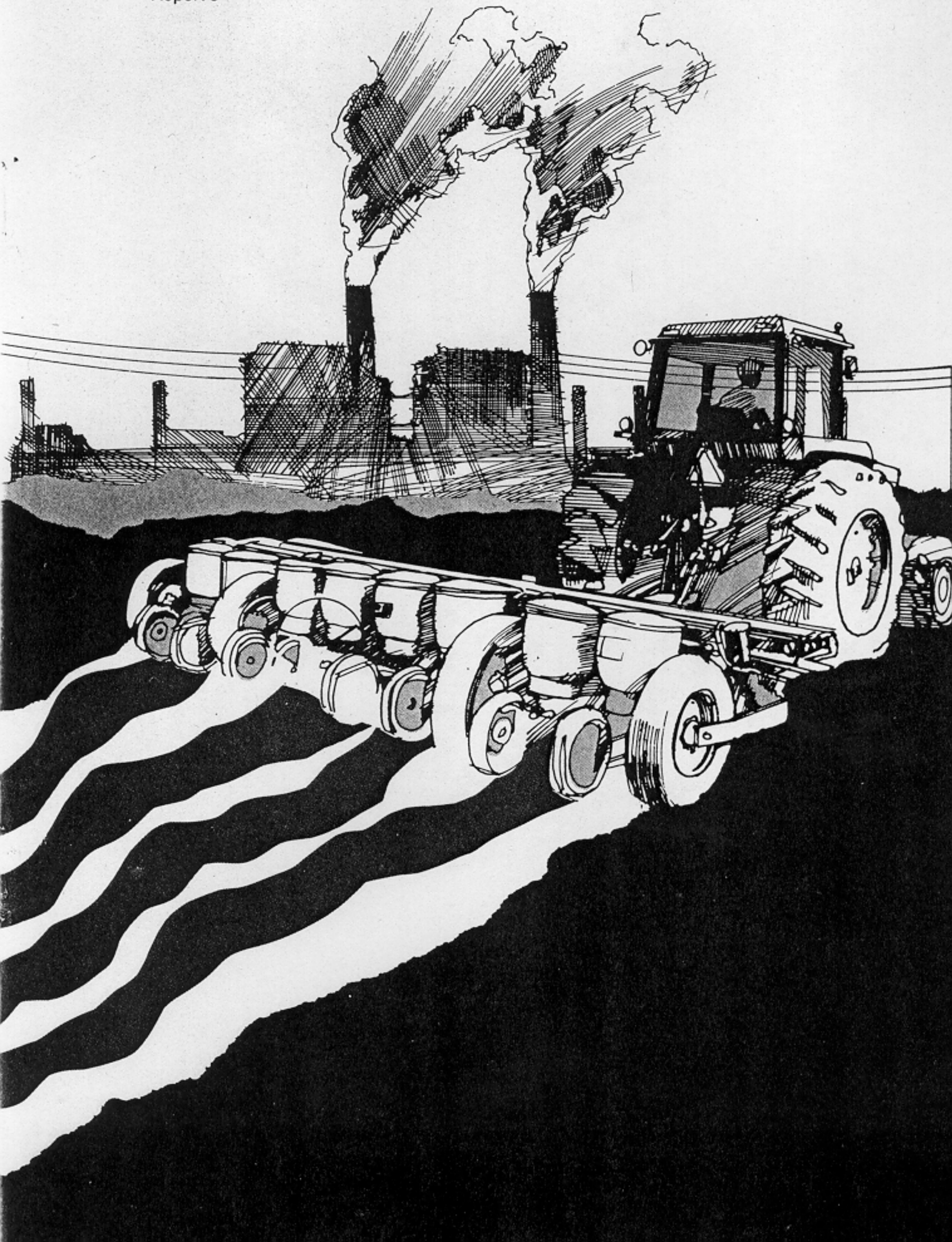
Cooperatives In Agribusiness



Cooperative Informaiion Report 5

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Contents

Cooperatives In Agribusiness

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Cooperatives are a part of agribusiness.

Just what is agribusiness? Why should you be concerned about it? Several years ago, a brochure published by the National Farm Committee, Inc., answered these questions this way:

"A dozen eggs...a sack of potatoes...a slab of steak...a chilled fresh fryer...a carton of milk...a can of tomatoes...we can buy them and hundreds of other items at almost any food store...at almost any time...and at reasonable cost.

"From field to factory to family use...food and fiber are the basis of a facet of our economy that furnishes jobs and income for about a fourth of America's working force.

"Together, food and fiber production, transportation, processing, packaging, storing, advertising, distribution, and other activities associated with feeding, clothing, and, to some extent, housing America's people constitute agribusiness.

"And because... 'round the clock, day in and day out, year in and year out, no matter where you live, who you are, or what you do, you are first and foremost a consumer...AGRIBUSINESS IS YOUR BUSINESS."

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[1] This publication was originally written by the late Irwin Rust and revised several times by C.H. Kirkman, Jr., now retired. Both were cooperative education specialists. It has been rewritten and updated by Gene Ingalsbe, director of the information services staff. It is written for secondary and postsecondary educational levels. Others interested in farmer cooperatives also may find it of interest.

The life of every American is touched almost daily by cooperative enterprise.

Have you ever counted the services and products you receive from cooperatives? Did you eat a Sunkist orange for breakfast, or did you start your day with a glass of Welch's or Ocean Spray juice &ink? You may have spread your lunch sandwiches with Land O'Lakes butter or oleo. Did you snack in the afternoon on Blue Diamond almonds? Was Farmland ham or Norbest turkey served for dinner? All of these brands of such widely different foods have one thing in common? They are owned by farmer cooperatives.

Have you seen the initials CENEX, PCA, or MFA? These are the initials of cooperatives, also. Cooperative names embracing Farmers Union or Farm Bureau refer to farm organizations instrumental in their formation.

Latest figures compiled by Agricultural Cooperative Service show 4,799 farmer cooperatives providing marketing, purchasing, and related services transacted business of $7 1.1 billion in fiscal year 1989. At the first-handler level, cooperatives marketed 26 percent of all agricultural products. They provided 24 percent of major farm production supplies.

But these figures don't begin to tell the story of the contribution of cooperative action to rural America. Mutual irrigation associations, farmers' mutual fire insurance companies, livestock grazing associations, and dairy herd improvement associations are other examples.

Thirty-five million people in rural areas get electric power from more than 900 electric cooperatives and telephone service from 252 cooperatives.

Specialized farm credit tailored to rural needs and abilities is provided through 285 credit cooperatives comprising the Farm Credit System. Rural credit unions—8 10, chartered under Federal and State statutes, provide savings and loan services to more than 3.5 million members.

Both farmers and city people use and are benefited by cooperatives. Many Americans read Associated Press news articles, belong to a group medical, hospital, or health association, or hold membership in one of the State affiliates of the American Automobile Association or a credit union. These are all cooperatives, all owned by the people who use them, all providing economic benefits to their users in proportion to their use.

So a great many of the products and services used in daily living come from cooperatives. A cooperative is a form of business that is useful to people regardless of where they live or how they earn a living.

In sum, nearly 50,000 separate cooperative organizations (including categories not mentioned here), with more than 100 million memberships, are operating in the United States today.

Our private enterprise system has three basic forms of business organization: The individually owned business, the partnership, and the corporation (table 1). Though some cooperatives are operated informally, most are in the corporate classification.

Individually Owned

The individually owned business is more dominant in farming than in any other segment of our economy. The most common type of farm business structure is the one in which the owner-operator makes the decisions and assumes the risk. The owner is the entrepreneur and usually performs much, or perhaps all, of the physical labor.

Despite the growth in size of farms and the increased use of farm machinery, the division of labor now typical in so many other industries is still not characteristic in agricultural production. A farmer is a combined owner, manager, and laborer.

Although some farms, even family-owned, are incorporated, the predominant type of farm business is still an individual operation.

The individually owned business has these advantages: (1) It is easy to control—the owner's judgment is final; and (2) any profits are the sole property of the owner-they need not be shared.

But it has these disadvantages: (1) Any losses are borne by the owner-they cannot be shared; and (2) capital is limited by what the owner can put up or borrow—which often limits the size of the business.

Partnership

A partnership is a business jointly owned by two or more people who have agreed to operate on a partnership basis. Together, they provide or borrow the capital; reach decisions by mutual agreement; and are mutually responsible for repayment of debts. They divide the income or share the losses among the partners in accordance with the original agreement.

Comparison of Methods of Doing Business

FEATURES COMPARED	INDIVIDUAL	PARTNERSHIP	CORPORATION	
			INVESTOR-ORIENTED	COOPERATIVE
1. Who uses the services?	Nonowner customers	Generally nonowner customers	Generally nonowner customers	Chiefly the owner patrons
2. Who owns the business?	The individual	The partners	The stockholders	The member-patrons
3. Who votes?	None Necessary	The partners	Common stock-holders	The member-patrons
4. How is voting done?	None Necessary	Usually by partners' share in capital	By shares of common stock	Usually one-member, one-vote
5. Who determines policies?	The individual	The partners	Common stock-holders and directors	The member-patrons and directors
6. Are returns on ownership capital limited?	No	No	No	Usually 8%
7. Who gets the operating proceeds?	The individual	The partners in proportion to interest in business	The stockholders in proportion to stock held	The patrons on a patronage basis

Father-and-son partnerships are common in farming after the son reaches an age of responsibility. The father may furnish the land and buildings, the son may do much of the manual labor, and they may each own livestock and purchase certain supplies while sharing other operating expenses.

The partnership has two major advantages over the individual proprietorship: (1) The amount of available capital is usually greater, and (2) several partners may bring special skills and training into the firm.

Major disadvantages are: (1) Each partner is liable for any and all debts of the partnership (this is known as unlimited liability); and (2) if one of the partners dies or wishes to leave the organization, it must be dissolved and a new partnership formed.

Corporation

The third form of business organization in the United States is called a corporation. There are two major kinds of corporations. One is the investor-oriented corporation; the other is the cooperative. Both are State-chartered businesses, usually organized under the laws of the State in which they have their main office.

Investor-Oriented Corporation

An investor-oriented corporation is operated as a profit-keeping enterprise. It derives its capital funds by issuing shares of stock that are purchased by investors for their profit-making potential. The price of such shares may vary from day to day.

Stock of many investor-oriented corporations is bought and sold daily on stock exchanges, the largest being the New York Stock Exchange. A stock exchange is actually a form of cooperative whose members are stockbrokers. Stockbrokers are persons or businesses who buy and sell shares of stock for their customers, who may be corporations, partnerships, or individuals.

Stock market share prices and number of shares sold in the various stock exchanges are published daily in many newspapers throughout the United States and major cities arround the world.

Investor-oriented corporations supplement the capital they derive from the sale of shares of stock by borrowing from banks, other financial institutions, and individuals.

Corporations have several advantages over a partnership. They have continuity of existence, limited liability of individual shareholders, and transferability of shares.

An investor-oriented corporation is a legal entity, an artificial person created when the State issues the corporation a charter to do business.

Because stockholders have limited liability, if the corporation fails, stockholders lose only the amount of their investment in stock.

The capital base of a corporation can be very broad. Thousands of stockholders may have invested money in the corporation by purchasing shares of stock.

Cooperative Corporation

A cooperative corporation is also a State-chartered business. It physically resembles any other firm that does the same type of things or performs similar services. It looks about the same. It employs about the same kind of personnel in similar jobs. It usually charges the same price for production supplies. It may pay the same price for products marketed through it-products such as grain, cotton, fruit, vegetables, honey, and livestock.

A cooperative exists to provide economic services to its members rather than just to generate a return on investment. A portion or all of its capital comes from members rather than outside investors. Capital is obtained by direct contributions through membership fees or sale of stock, by agreement with members to withhold a portion of net income based on patronage, or through assessments on some regular basis such as per unit of product sold or purchased, or per acre, per cow, and so on.

Cooperative stock is not created for speculative gain purposes and, therefore, is not traded on stock exchanges. Little or no prospect exists for an increase in the market value of cooperative stock as a reflection of corporate earnings, as in other businesses. The reason is that net income is distributed on the basis of patronage rather than on the amount of stock owned. Cooperative stock signifies ownership but regardless of the amount held it usually carries only one vote. Further, the stock usually carries a fixed rate of return not to exceed 8 percent.

Member-patrons as users are largely responsible for financing their cooperative. But like other businesses, cooperatives use various forms of borrowed capital.

Cooperatives—like investor-oriented firms-are nearly always incorporated to provide their member-patrons the shelter of limited liability if the business should fail. In rare instances, small cooperatives providing a limited number of services may choose to operate as an unincorporated business. Under these circumstances, the cooperative has a legal status similar to that of a partnership. Liability is unlimited, and the death, entry, or withdrawal of a member makes it necessary to restate, usually in writing, the nature of the relationship between members.

WHAT IS A COOPERATIVE?

Cooperatives have been described since their beginning as a "different" approach to reaching a goal. Differences are in purpose, how they operate, and in governance. These differences become apparent in developing a definition of a cooperative and identifying four distinctive characteristics that set it apart from other types of businesses.

A definition of a cooperative needs two ingredients-It must be broadly applicable, yet sufficiently concise to be understood and remembered by the typical member. A workable definition is:

"A cooperative is a user-owned and democratically controlled business in which benefits are received in proportion to use."

Such a definition captures the essence of what a cooperative is. It does not prevent further description. In fact, it requires elaboration to meet a wide array of legal and legislative policy-making requirements and describe the diversity of cooperatives. This basic definition, for example, does not answer three fundamental questions: (1) Why is a cooperative started; (2) what is its purpose; and (3) how is it different from other forms of business?

Why Is a Cooperative Started?

Every cooperative has been started for one or more of the following reasons: (1) to improve bargaining power when dealing with other businesses; (2) to reduce costs; (3) to obtain products or services otherwise unavailable; (4) to obtain market access or broaden marketing opportunities; (5) to improve product or service quality; and (6) to increase income.

The underlying rational for farm operators' use of cooperatives is to increase income. Initial efforts were aimed at increasing farmers' bargaining power with the much larger firms that sold them supplies and marketed their products. Cooperatives have expanded their activities to fulfill new needs and to take advantage of additional opportunities to increase members' income.

What Is a Cooperative's Purpose?

A cooperative's purpose is to serve members' needs. Such a purpose suggests a continuing dialog between management and members and a changing mix in the cooperative's functions and operations.

Such a purpose does not permit a cooperative to "go off on its on," seeking to perpetuate itself as a business entity and to fulfill the personal ambitions of its management. And members must understand the cooperative's purpose of meeting their needs cannot be in conflict with serving in the public interest.

The cooperative's purpose must be compatible with the characteristics that make it a unique business.

How Is a Cooperative Different?

Understanding a cooperative requires clear recognition between the principles that create its uniqueness and other characteristics that may be labeled as desired "principles" but are based on common sense or universal truths. For example, "Give full weight and measure" and "duty to educate" have been described as cooperative principles, because honesty and education are so critical to success. But these principles (better called practices) contribute nothing to distinguishing cooperatives from other businesses.

Discussion of cooperative principles and practices, therefore, should be prefaced with a definition of terms. Cooperative understanding comes easiest by limiting the use of cooperative principle to the following definition:

A cooperative principle is an underlying doctrine or tenet that defines or identifies a distinctive characteristic.

Various writers over the past century or so have analyzed and observed the application of cooperative principles. Allowing for slight differences in terminology, four character principles emerge from rather lengthy and diverse lists as being recognized and widely practiced for nearly 150 years. These are more than good practices, policies, or common sense. They are the principles that distinguish a cooperative from another kind of business. They are recognized in Federal and State statutes as criteria for a business to qualify as a cooperative.

The four character principles are:

- Service at cost;
- Financial obligation and benefits proportional to use;
- Limited return on equity capital; and
- Democratic control.

Service *at Cost*

Members unite in a cooperative to get services otherwise not available, to get quality supplies at the right time, to have access to markets, or for other mutually beneficial reasons. Acting together gives members the advantages of economies of size and bargaining power. The cooperative attempts to fulfill member needs at the least possible cost. However, determining true costs at the point of transaction is practically impossible. The usual practice, therefore, is to charge competitive market prices with the objective of generating sufficient income to cover costs and meet continuing operating capital needs. The cooperative's operations are reduced to an at-cost basis at the end of its fiscal year when surpluses are returned to members.

A cooperative generally does not retain the surplus of gross income over expenses-called profit in an investor-oriented firm. Organization papers will include a provision that establishes the obligation of the cooperative to return net margins to its patrons. With this obligation or legally binding contract in effect before any transaction with patrons takes place, the amounts involved never become corporate income. The net income, instead, belongs to patrons, which reduces the cooperative's operations to an at-cost basis. With no corporate income, the cooperative has no corporate income tax liability. However, Federal income tax laws set up criteria a cooperative must adhere to so tax obligations are met at either the cooperative or patron level.

Some cooperatives may distribute patronage refunds only to members. In this case, the earnings generated from nonmembers are treated as corporate income by the cooperative and are subject to corporate income tax.

The Internal Revenue Code requires that 20 percent of the patronage refund be paid in cash, and that patrons give their consent to the cooperative to treat the noncash portion as ordinary income. Under certain circumstances, some patrons are unwilling to recognize noncash allocations as part of their current income. In these cases, the cooperative pays the taxes at the corporate rate but can recover the tax payments when it later redeems its noncash allocations.

Financial Obligation and Benefits Proportional to Use

Members gain both direct and indirect from their cooperative. They get an assured source of supplies and market for their products, which can directly increase income. They get a benefit, though sometimes hard to identify, from just the existence of their cooperative as a yardstick to measure the performance of other businesses. Some members gain the benefits of leadership experience, business knowledge, and social recognition. All these benefits accrue in proportion to how much members take advantage of what their cooperative represents. It is logical, therefore, that members are obligated to provide financing in proportion to the use of the cooperative that produced those benefits. The cooperative is a business. It does have costs. Member-owners are obligated to pay those costs.

Limited Return on Equity Capital

Members form a cooperative to get a service-source of supplies, market for products, or performance of specialized functions. The primary purpose in cooperating is to get service and not to get a monetary return on their capital investment. Limiting the payment, if any, for members capital used to operate the cooperative supports the principle of distributing benefits proportional to use. Stated another way, returns to capital are subservient to the value of services received.

Limitation by cooperatives of returns on capital is recognized in both Federal and State laws. These laws specify the maximum returns that may be paid on invested capital. Cooperatives may choose to pay any amount less than the maximum. In most State statutes, the limit on capital returns is fixed at 8 percent. The basic Federal cooperative law-The Capper-Volstead Act-recognized this principle by setting a maximum dividend rate of 8 percent per year if members vote on any basis other than one-member, one-vote.

Democratic Control

The preceding three principles characterize how a cooperative fullfils its purpose. Democratic control is a governance principle, an important distinction. At the primary, or local, cooperative level, it usually means each member has equal voting or governance rights, resulting in control by the majority. A few cooperatives have experienced such a shift to a heterogeneous membership and resulting disparity of use that voting proportional to use has been adopted with established limits. Such a departure from equal voting rights, nevertheless, recognizes that the glue binding members to the concept of unity remains mutuality of benefit. Voting according to volume at the secondary (regional) cooperative level is often necessary to support equitable service at the primary level.

Important Practices

Beyond the four character principles, cooperatives adhere to many other generic principles and practices that are considered important and are also followed by other businesses and organizations. Among these are:

Open Membership

This policy is considered a character principle by food, health, housing, and other types of consumer cooperatives. Yet, it doesn't distinguish them from public stock corporations that allow anyone to buy stock. Agricultural cooperatives are limited to bona fide farmers, and even some of these have closed membership. The type of cooperative and its purpose will largely determine whether it can practice open membership.

Continuing Member Education

Keeping owners educated on what's going on is an important practice for any business. It is particularly vital to a cooperative for at least three reasons:

(1) The democratic control principle, exercised through majority rule, requires that the entire membership be well informed to assure enlightened decisionmaking:

(2) The cooperative can be responsive to members' needs only if the members express those needs and recognize they must bear the financial burden to fulfill those needs; and

(3) Our public education system doesn't give much instruction on cooperatives in business and economic courses; therefore, the cooperative must be the educational institution for itself.

Cooperation Among Cooperatives

This statement was adopted by the International Cooperative Alliance in 1966 as a "principle" that cooperatives should pursue to advance the concept of cooperation worldwide. It is good policy also wherever members' resources can be used more effectively and the public interest served more efficiently.

Solid justification could be argued for other generic principles, practices, and "good ideas" as being necessary guiding forces for cooperatives. These will change over time, reflecting efforts to adapt the cooperative to its business environment.

HOW COOPERATIVES ARE ORGANIZED

Cooperative businesses are usually incorporated. To incorporate, a firm prepares a set of papers called articles of incorporation. It sends these to the appropriate State office (usually the Secretary of State) for review, approval, and filing.

Articles of Incorporation

Articles of incorporation specify the name of the organization, its purpose, the scope of its authority, its place of business or headquarters, the number of directors, and whether the capital is stock or nonstock. In other words, the articles tell what the cooperative is going to do.

An incorporated cooperative possesses the legal characteristics of an investor-oriented corporation. It differs primarily in the nature of the relationship between the organization and its owners, and the manner in which benefits are distributed.

Bylaws

In addition to the articles, all corporations, including cooperatives, must have a set of bylaws. Bylaws tell how the corporation is going to operate. They are normally prepared concurrently with articles of incorporation, because the two legal documents are interrelated and an attorney or other legal counsel is needed to prepare both.

Bylaws are more descriptive and detailed than the articles. They typically contain provisions for membership eligibility, election of directors, annual meetings, officers' duties, voting rights, dues and assessments, and rate of dividends (if any) to be paid on member capital invested.

The exact nature of services to be provided by the cooperative for its members is generally not spelled out in the bylaws. Changes may be made from time to time to suit altering needs. Some flexibility in bylaw provisions is desirable because amendment of the bylaws is a time-consuming process.

Marketing Agreements

In a marketing cooperative, a marketing or membership agreement may be referred to in the bylaws as a separate document, or included as a section of the bylaws. A marketing agreement is a contract between the cooperative and a member. It may require the member to deliver and market all production through the cooperative. It might be only a specified commodity produced on a specified block or blocks of land. It might require production in a specified manner.

The marketing agreement might stipulate that the cooperative is obligated to receive and market all of the commodity delivered by the member under the terms of the contract.

Membership

The relationship between a cooperative and its members often depends on the type of service the cooperative performs.

Some associations, particularly marketing associations, require a formal application for membership and issue a membership certificate. In some instances, the application must be accompanied by payment of a membership fee, usually refundable upon withdrawal. In other cooperatives, particularly purchasing cooperatives, membership is identified with patronage.

A patron making a purchase becomes eligible for membership by qualifying as a producer. A nonmember patron ordinarily is not affected by a cooperative's bylaws.

Geographic areas served and the makeup of membership are elements that contribute to classifying cooperatives by structure. First, they may be differentiated as locals or regionals.

A local association provides services for a community, a county, or even several counties. Individuals are the members of these local cooperatives.

Local marketing associations usually perform a limited number of the first steps involved in marketing. In the case of farm supply associations, practically all sales are at the retail level. Local associations may or may not be affiliated with other cooperatives.

A regional cooperative is one that usually serves an area comprising a number of counties, an entire State, or a number of States. Two important classifications of regionals are based entirely on the makeup of their membership-federated or centralized.

A federated cooperative is actually a cooperative of cooperatives. The members of a federated cooperative are local cooperatives, operated by local managers appointed by and responsible to local boards of directors. Each local association in a federated cooperative is a separate corporate entity that owns a membership share entitling it to voting rights in the affairs of the regional.

The federated cooperative (often called a federation) has its own chief executive officer and staff-and a board of directors elected by and representing the local associations.

Locals are autonomous but depend in varying degree on the federation for a variety of services. In purchasing federations, the services may include research, procurement, and manufacturing. In marketing federations, the locals often want federated advertising ad product promotion, marketing, processing, handling surpluses, maintenance of product standards, and overall market contracts. Locals look to their federation, for example, to arrange and coordinate shipments.

A regional ***centralized*** association is structurally like a small-scale local **cooperative—**individual persons make up the membership. A centralized regional may serve patrons in a large geographical area, such as a major portion of all of an entire State or all or parts of several States. **A** centralized regional has one central office, one board of directors, and one chief executive officer who supervises the entire operations, which may be conducted through several or many branch offices. A centralized cooperative usually serves patrons within the relatively restricted membership area of a single State or region.

Both centralized regional and local associations obtain much of their capital from members who are investing as individuals. The federation is financed in part by its local member associations.

Federated cooperatives are often thought to be more practical for larger membership areas because of the distances involved. Problems of plant supervision, decisionmaking, and communication become complicated when locations are widely scattered.

Usually the local cooperative is small enough to permit frequent direct contact and exchange of ideas, impressions, and information between members and the employees. But here again definitions have become fuzzy. A local cooperative may serve as few as **5** or 10 members, or several thousand.

Regardless of structure, cooperatives are controlled democratically. For example, each of several locals in an area may have a director on the board of the federated cooperative. On the other hand, a centralized cooperative may elect its board of directors under a districting arrangement that assures a broad representation. And some centralized associations use advisory committees that provide channels of communication to management directly or through branch operations.

Classification of cooperatives into federated or centralized is largely for descriptive purposes. For example, there may be some regional cooperatives with “mixed” membership-that is, their members may be individuals as well as local associations. In practice, the federation may have so many responsibilities and activities that it is essentially centralized operationally. Examples of these are management contracts with local cooperatives, credit arrangements, and systems for distributing supplies directly from the federation to the member. In turn, branches in centralized cooperatives may have considerable freedom in their operations.

WHO RUNS THE COOPERATIVE BUSINESS?

Cooperatives follow business procedures similar to those of other firms. They strive for efficiency, they aim to meet competition, they seek innovations, and they are acutely cost-conscious.

Cooperatives endeavor to maximize net income, to minimize costs of acquisition and operation, and in general, endeavor to provide their services as economically as possible.

All successful cooperatives stress quality—of products marketed, processed, purchased, manufactured (such as feeds and fertilizers)—and service.

Three groups of people are involved in the operation of a cooperative:

-Members
-Directors
-Manager and staff

Members

Members are the foundation of the cooperative. They organized it. Their needs are the reason for its existence. Their support, through patronage and capital investment, keeps it economically healthy. And their expanding requirements shape the cooperative's future.

Because the cooperative is organized to provide for the needs of its members, channels must be established so the cooperative can be kept informed of those needs. Several channels exist. Perhaps the most important one is the annual member meeting. At this meeting, members learn how their cooperative has performed during the year through the reports by the board chairman, the manager, and other key officials.

At the annual meeting, members have a chance to ask questions, make comments, and request changes or new services. Members elect new directors to replace those whose terms of office have expired.

Along with the right to make their wishes known, member-patrons have responsibilities. Because patronage keeps the cooperative alive, members must use the cooperative's services. Because growth can bring about increased efficiency, the ideal member encourages new patronage by introducing the cooperative to neighbors and friends. And because growth calls for new capital, the member is responsible for providing at least part of it.

The member also has some responsibility for participating in other ways. For example, directors are chosen from among the members. While selection as a director is an honor, it is also a serious responsibility. Cooperatives own assets worth thousands, even millions of dollars. Some transact many millions of dollars' worth of business a year. Members who serve as directors are responsible for administering these funds, placed in their care by the members who elected them to office.

Members participate in still other ways. For example, they may serve on committees, call on prospective new members, or represent the cooperative in various community activities.

Directors

Members elect directors at the annual member meeting. The board represents the members. It sets policy and is responsible to the members for efficient operation of the cooperative.

Directors hire the manager.

Directors decide what the cooperatives will do to accomplish the purpose for which it was created and how it will finance its operations. For example, directors approve borrowings for fixed capital purposes such as construction and land acquisition as well as for day-to-day operating expenses. Directors determine the patronage refund allocation, weighing legal requirements against the need for reinvesting refunds to provide money to retire old equities and still meet current capital needs. Directors assure the cooperative maintains its character, and they develop and adopt long-range business strategies.

Typically, directors receive nominal compensation for serving as board members plus an allowance to cover out-of-pocket costs incurred in carrying out their duties as directors.

Manager and Staff

Directors decide what the cooperative will do; the manager and immediate staff decide how it can best be done-subject to board review-so as to realize the basic objective of serving members effectively.

As cooperatives grow in size of operations, variety of services provided, and number of patrons served, they usually expand their management team to include specialists. These employees may specialize in fields such as member relations, communications, governmental and public affairs, legal services, personnel relations, accounting, and transportation. They may include those with special knowledge of the various commodities marketed, purchased, or provided for members such as milk, butter, eggs, fruit, feed, seed, fertilizer, or electricity. Under ideal conditions, the manager's principal tasks are planning, reporting to the board of directors, conferring with key supervisors, maintaining good organizational relations, and controlling the cooperative's operations.

One of the major problems of large cooperatives is communication with members. Often, in a large cooperative, the manager and key staff are known personally to relatively few patrons. The only time management may be seen by many members is at the annual meeting. This may be such a large affair that it allows little time for conversation with members.

In a relatively small or local cooperative, it can be fairly easy to maintain good relations between the cooperative and its members. In some small cooperatives, the manager does this by personal contact, keeping members informed of their cooperative's progress and activities, and encouraging them to communicate their problems, needs, and evaluation of cooperative services.

The manager is the intermediary between staff and the board of directors. Reports are given at board meetings on the activities of the association, outlining any special problem, operational changes, and financial matters.

Once a year, the manager presents the plan of operation and budget for the coming year or years. These are subject to approval by the board of directors and are often a joint product of the manager and the board. Periodically, the manager reviews with the board actual performance against budget projections and explains variations in performance.

Staff meetings are scheduled in which the manager discusses operating procedures and problems with key employees. At these meetings, the manager helps staff members become familiar with cooperative policies and objectives, interdepartmental relationships, and individual responsibilities.

Often, the only cooperative employee a member encounters over a period of months is a billing clerk, a cashier, a truck driver or field representative, or a warehouse employee who loads supplies into the member's car or truck. Therefore, many cooperatives have regular training programs to help employees learn about the cooperative for which they work and about cooperative principles and practices. Actually, these workers are the employees of members, because members own the cooperative. By their efficiency and friendliness, well-trained employees attract patronage and build favorable attitudes toward the cooperative-both as a business and a desirable institution.

Cooperative members in the United States finance their cooperatively owned business by using all the standard methods employed by other business corporations plus a few unique to cooperatives.

Capital Structure

If the association is a capital stock organization, members receive stock certificates as evidence of their ownership interest. More than one type of stock may be issued, but usually no more than two types are necessary. Most stock cooperatives issue one share of common stock per member to show membership. Preferred stock is issued to show additional capital contributions.

Common stock is usually the voting stock. Preferred stock is generally nonvoting.

If the association is a noncapital stock organization, it issues some kind of certificate-sometimes a certificate of equity-to show capital contributions of members. Many nonstock cooperatives raise some or most of their original member capital by means of a membership fee.

The capital structure usually is kept as simple as possible. If stock is issued, par value is kept low-$5, $10, or $20, for example. Shares of this size are easier to sell, transfer, or pay off than shares of higher value.

Capital Needs

Total capital needed by a cooperative depends on such factors as volume of business it does, type of service it provides, kind of physical facilities needed, nature of competition it faces, seasonality of the commodities handled, and degree of risk it takes in the day-to-day conduct of its business. Whatever the total amount of capital, it normally is related to the number of members and volume of business.

Two kinds of capital are used—fixed and operating. Fixed capital is money invested in such things as land, buildings, and equipment. Operating capital is the money required to keep the business going-advancing members money on products marketed for them, obtaining farm supplies, paying the light and water bills, paying the employees, and buying the operating supplies such as packing cartons, office supplies, and miscellaneous items.

Three important sources of this capital are:

-Members, who invest in the cooperative to get needed services.

-Nonmember patrons; other cooperatives; marketing and supply companies; and individuals, firms, and organizations that invest in the cooperative to earn dividends or because they are interested in the welfare of the cooperative.

-Loans from such lending agencies as a Bank for Cooperatives, a commercial bank, or, in certain cases, one of a number of Government agencies.

Banks for Cooperatives are part of the Farm Credit System, offering a complete line of credit to agricultural cooperatives, including fishing cooperatives.

Some cooperatives also obtain financing from their wholesale suppliers and other creditors to the extent of the credit extended on merchandise purchased. Marketing cooperatives obtain a measure of financing to the extent of the time lag between receipt of the commodity from member-patrons and actual settlement with them.

Member Capital

Members must recognize that launching a business takes startup money. Because they are the owners and expect to reap the benefits, they are obligated to finance a major portion of the startup costs. The hope is that once the cooperative is operating, it will generate sufficient funds to perpetuate itself. But occasionally, members may have to contribute additional capital because of unusual circumstances, such as a major disaster or major expansion.

Initial capital is needed (1) to buy land, buildings, equipment, and other facilities and (2) to operate the business the first year.

Investing initial capital is a basic member responsibility. These initial investments are evidence of good faith of the members-their "earnest money." The members' share of initial capital should be large enough to make them realize they have a financial stake in the business to protect.

Members' investment is used as a credit base when applying for a loan. It should be a sizable proportion of total need because no credit source would likely take financial risks in a cooperative if its members demonstrate an unwillingness to do so.

As a general rule, each member's share is proportionate to anticipated use of the cooperative. It is usually made in cash. Often a few members may contribute more than their share. In a cooperative, this will not entitle them to any special privileges.

Under certain conditions, if members of a cooperative do not have enough funds or credit to subscribe their share of initial capital, the cooperative may be eligible to obtain loans from Farmers Home Administration, U.S. Department of Agriculture, under the consolidated Farm and Rural Development Act as amended. These loans guarantee to promote business and industrial development in rural areas. Applicants must prove economic viability. Preference is shown to projects in towns of 20,000 population or less, or in open country.

Possible cooperative uses of Farm and Rural Development funds include, but are not limited to: business and industrial construction, conversion, acquisition, and modernization; purchase and development of land, easements, equipment, facilities, machinery, leases, and supplies; startup costs and working capital; and the refinancing of debts, when refinancing results in a sound loan and protects the Government's interest.

Facility Loans

Long-term credit from Banks for Cooperatives or other outside sources is the usual way to acquire part of the money to construct buildings; and buy equipment or plant sites.

Main sources of facility loans are Banks for

Cooperatives, commercial banks, and insurance companies.

It is also possible for cooperatives serving rural patrons to obtain facility loans jointly from Farmers Home Administration and a regional Bank for Cooperatives under feasible conditions.

Rural Electrification Administration, through rural electric cooperatives, may lend funds to a cooperative to purchase electric equipment and related items.

Operating Loans

Operating capital loans generally are short- or medium-term loans. The medium-term loans supplement the cooperative's own capital funds. The short-term loans are generally seasonal. They finance seasonal increases in inventories and accounts receivable, as examples.

Cooperatives may obtain operating loans from Banks for Cooperatives and Farmers Home Administration as well as commercial banks and other lenders.

Commodity Loans

Marketing cooperatives must often store their products, such as grain or frozen citrus concentrate, both for long and short periods. In some cases, a commodity loan is necessary to pay an advance to the member before the product is sold. Such loans come from a Bank for Cooperatives, the Commodity Credit Corporation, a commercial bank, or other loan sources, and are secured by warehouse receipts.

Special Services Loans

A number of Federal Government agencies lend money to cooperatives providing special services.

An important source of loan funds to rural electric and telephone cooperatives is the Rural Electrification Administration (REA). REA loans are made: (1) To provide electric service in rural areas through construction of power lines and related facilities; and (2) to finance the improvement and extension of telephone lines in rural areas.

National Rural Utilities Cooperative Finance Corporation (CFC) is an independent, self-help credit institution created by its member rural electric system to provide supplemental financing for rural electric cooperatives.

The Rural Telephone Bank was established as an agency of the United States by amendment to the Rural Electrification Act to provide supplemental financing for rural telephone systems.

The National Cooperative Bank, though oriented largely to consumer cooperatives, also makes loans to producer cooperatives. NCB financing includes term loans for major capital expenditures, lines of credit, and construction and real estate loans.

The Bureau of Fisheries, Department of Interior, lends to fish marketing cooperatives; the Bureau of Indian Affairs, to cooperative organizations of Indians, Eskimos, and Aleuts; the Bureau of Reclamation, to small cooperative reclamation projects, primarily for irrigation in 17 Western States.

Revolving-Capital Financing

Revolving-capital financing, widely used by cooperatives, is well suited to cooperative operations.

Here is how it works.

As a member does business through a cooperative, he or she authorizes the cooperative to use a portion of the money accumulated or saved through patronage. Or the member may furnish capital based on the dollar value or physical volume of products sold or bought through the cooperative.

In either case, this money is identified as a capital investment of the member and is used for capital purposes only.

The money thus collected by the cooperative from patronage is credited to the member on the cooperative's books. At the end of the year, the member is notified or issued some evidence of the total amount invested in cooperative capital for the year.

The capital accumulated in this manner may be treated as a revolving fund. The funds may be used for repayment of debt, expansion, or for such other capital purposes as authorized by the board of directors. As such funds continue to accumulate, the board authorizes the repayment of funds to those members who contributed funds in the past.

Repayment goes first to members whose contributions are the oldest in the revolving fund. Normally each year's contributions are issued in a numerical series. Thus, the oldest of the numbered series comes up for repayment first.

As a general rule, the member's evidence of revolving fund contributions does not have a specified repayment date (due date). Rather, the board establishes revolving fund periods after taking into account the association's financial requirements. Some cooperatives revolve funds at intervals of 5, 7, or 10 years. These periods are not legal requirements but they are considered as normal commitments on the part of the cooperative.

The revolving-capital plan allows members to build up equity in their association in proportion to the amount of business they do. It ensures that current investment in the cooperative is largely by the current patrons. It provides an orderly process or returning or withdrawing a member's investment without impairing the total capital structure. And it gives the business flexibility to meet changing conditions that may cause financial needs to change.

The revolving-capital plan creates some membership problems. Under some circumstances, the revolving period may have to be lengthened. The lengthened redemption period may place a financial burden on some members. Thus, successful operation of a revolving-capital plan calls for members' understanding of their financing obligations.

Reserves

Like any other business, a cooperative builds up two types of reserves-valuation and capital. Reserves for such items as depreciation are called valuation reserves and are accumulated by a charge to operations. From an accounting standpoint, they are handled as an operating expense as a means of charging a pro rata share of the initial cost of a fixed asset over the estimated life of the asset.

The second type of reserve, a capital reserve, is usually, although not always, built up from net operating margins.

Capital reserves are of two general types: (1) Those reserved to meet an unexpected crisis, such as a poor business year; and (2) those to meet a large planned outlay.

The latter might be a building fund for new or expanded facilities, perhaps adding new services, or a modernization program where the cost exceeds the current financial capacity of the cooperative. When such a need arises, the cooperative can use its reserves instead of borrowing money, curtailing its services, or impairing its capital.

Thus, reserves protect the capital investments of members. And when a cooperative operates strictly on a nonprofit basis, it allocates capital reserves to all its patrons on the basis of the use they have made of the cooperative's services.

being “marketing,” or some other readily identifiable .

But as our economy has become more complex, so have our cooperatives. Today, most marketing cooperatives also purchase supplies for members. Many cooperatives extend some kind of credit and in some instances even operate a credit corporation for the convenience of members.

Cooperatives have been serving as economic tools providing a wide variety of services in one form or another in this country since the days of the colonies. The time-honored threshing bee, the neighborhood barnraising, and in the early 1800’s the cheese rings are all examples of informal but true cooperative activity.

All cooperatives have the same objectives: To provide services where these were not otherwise provided (such as marketing, insurance, or electric power); to provide these services at lowest possible cost (such as cotton gins); or to upgrade productivity (such as mutual irrigation companies and artificial breeding cooperatives). Indeed, early settlement in much of the arid southwestern part of the United States was made possible to a substantial degree by mutual irrigation companies.

Probably the most widely known of all rural cooperative services, next to marketing and purchasing, are the three types of cooperative credit made available through agencies of the Farm Credit System; and rural electricity, made available through rural electric cooperatives.

Cooperative leadership has been provided by specialists in several fields-experts on marketing, farm supplies, insurance, dairy cattle bloodlines and breeding, or electric power. The availability of technical knowledge of such specialists is a valuable service in itself.

Marketing

Over the years, American farmers have learned many new techniques for increasing yields and reducing manual labor. At the same time, finding satisfactory markets for their products has become an increasing problem in a world trade environment.

Many farmers are more effective in production than in marketing. Frequently they lack the time or capacity to understand and satisfy the demands of today's mass markets. Cooperatives provide them with the marketing tools they need. For one thing, they furnish an increasing variety of off-farm marketing services. In response to the market demand for high quality and standardized products, they have pioneered in assembling products from many producers, and then carefully and accurately grading the product to meet buyer specifications as to size, quality, color, or other terms.

By paying producers on the basis of grade and quality, cooperatives encourage farmers to produce the kind and quality of product most in demand.

They process or pack in a form acceptable to large-volume buyers. (Processing includes such activities. as canning, pasteurizing, concentrating, churning, cheesemaking, drying, extracting, freezing, and ginning.)

Cooperatives transport, store, advertise, and promote products for their members. They explore and develop new trade channels, domestic and foreign.

Through research they develop new products or find new uses for what they produce.

Cooperatives have become a valuable bargaining tool for farmers. Agricultural producers typically lack bargaining power. Why? Because individual farmers produce relatively small volumes and because they lack the bargaining advantage that is associated with product differentiation. (A differentiated product is one with distinctive characteristics that can be emphasized in advertising and that give it special desirability for users who value such characteristics.)

During recent decades, businesses that buy agricultural products have steadily grown in size. For example, many food processors and packers are large corporations with great bargaining strength.

Similarly, chain food stores that buy fresh produce and other products in large amounts poses commensurate bargaining power. Cooperatives help farmers match the bargaining strength of other firms.

Marketing cooperatives benefit consumers as well as producers. Because they place emphasis on uniform grade standards, they have made producers more quality-conscious. Standardized packs of food and food products help consumers shop more efficiently.

Cooperatives' effort to minimize costs of marketing have served to build cost-consciousness among all who are engaged in food and fiber marketing activities. And this in turn helps hold down costs to consumers.

Bargaining cooperatives are a special type of marketing cooperative. When processors of agricultural products have become few in number or very large in size, bargaining cooperatives are an effective marketing tool for farmers. They serve their members by negotiating with canners, packers, or processors on behalf of members. These negotiations may involve such matters as price, quality, and time of harvest or delivery.

Bargaining cooperatives generally do not take physical possession of the product. The actual sale of the product may be made by the farmer to the buyer, but on terms agreed to by the cooperative. This type of marketing cooperative is used by growers of fruits, vegetables, and sugar beets, and by many milk producers.

Marketing cooperatives teach producers about marketing and markets. Through their cooperative meetings and publications, farmers learn the costs of marketing their products, consumer preferences, and the need for advertising and brand promotion.

Through marketing cooperatives, farmers extend control over their product at least one step past the farm gate as it travels to the consumer. So long as the cooperative retains either physical possession or legal title to a commodity handled by it, members have a voice in the distribution and sale of the commodity.

This control may, in the case of a product to be canned, for example, be confined to bargaining on grower price and terms of delivery; it may, in the case of milk, include the manufacture of dairy products and delivery of the cartoned product by the cooperative to consumer stores and supermarkets.

Perhaps the most important contribution of marketing cooperatives is to develop for the producer a broad market-in terms of geographic dispersion as well as variety of uses. Thus, in times of abundant supply, small surpluses have less price-depressing effect, and prices tend to be more stable.

Membership in most marketing cooperatives is open to all producers who fully meet membership and production requirements. Exceptions are cooperatives with seasonally limited capacity or outlets.

A member may withdraw from membership during specified dates annually, although some cooperatives require that a new member retain membership for a minimum beginning period of 2 or more years. Some marketing cooperatives are closed to new members for a brief season of the year to permit a preliminary estimate of the volume to be handled for the coming season.

A corporation actually engaged in growing agricultural products, such as a corporate farm, may become a member of a farmer cooperative. And, under special circumstances, a marketing cooperative may hold membership in another cooperative handling the same commodity and market a portion of its volume through the cooperative to which it belongs.

Purchasing

Farmers characteristically have sold their output at wholesale prices while paying retail prices for many of their input needs. They gained little advantage from product differentiation; they purchased in relatively small amounts and often paid extra for products with name brands for feeds, farm equipment, and petroleum products.

To overcome these problems, farmers turned to the cooperative as an economic tool. In some cases, wholly new cooperatives were organized to manufacture ready-mixed feeds, to manufacture fertilizer and fuels, to purchase, clean, and distribute high quality seed, or to provide other related production services.

Initially, cooperative purchasing was quite informal. A group of farmers would get together and pool their orders to gain the advantage of carlot prices on major farm input needs such as feed and fertilizer.

The demonstrated benefits to producers encouraged them to organize more formal or incorporated cooperatives with full-time managers and warehouses to handle other production supplies such as feed, farm chemicals, petroleum products, farm equipment, fencing, and roofing.

Cooperative purchasing began about 1850 by farmer clubs in Wisconsin and Illinois. After the Civil War, local and State granges acted as agents to pool orders and buy needed supplies for direct shipment to farmers. In the early 1900's, the number of purchasing cooperatives grew steadily.

But the real expansion in cooperative purchasing followed 1930, stimulated first by the need to cut costs during the depression, later by shortages of needed materials caused by World War II.

This same period saw the rise of a number of strong and progressive regional cooperatives-federations of locals for the most part. These regionals had the volume and financial strength needed to own and operate such large-scale facilities as oil refineries, fertilizer manufacturing plants, and feed mills that could give members more assured sources of supply for their major needs.

As a result, today's farmer can share, through the local supply cooperative, in the ownership of and benefits from oil wells, petroleum refineries, phosphate and nitrogen plants, feed and seed research farms and laboratories, and other large-scale activities.

Farmers obtain membership in most purchasing cooperatives by acquiring a share of common stock (the par value often may be $1 to $50) and agreeing to abide by the bylaws. In others, patronage (by the producer) is the sole requirement for membership.

Purchasing cooperatives do not usually require members to sign an agreement. Members are free to buy farm supplies wherever they

member-

member-and gain members from expanding urban communities.

Services provided by the typical local purchasing or farm supply cooperative vary somewhat with the area in which it operates. Some carry a relatively limited line of supplies related to particular member needs. Petroleum cooperatives, for example, may purchase and distribute only petroleum and related supplies-gasoline, heating oil, lubricants, tires, batteries, automotive supplies, and the like.

Most local purchasing cooperatives, on the other hand, carry a wide variety of supplies needed for the production of several farm commodities. Such cooperatives may purchase or mix feed and blend fertilizer, clean and sell seed, distribute automotive needs such as gasoline and tires, and carry a full line of building supplies and tools. Some cooperatives have developed more adequate farm service centers designed to provide members with one-stop shopping.

A basic service extended by most purchasing cooperatives is on-farm delivery. Feed is delivered in bulk to farmers' bins. Cooperative bulk tanktrucks deliver fuel oil directly to farm storage tanks and often to the tanks of other rural residents.

Many cooperatives provide a custom fertilizer spreading service-they not only deliver fertilizer to the farm, but also spread it directly on the field with specialized equipment.

Some petroleum cooperatives operate special trucks to deliver, repair, and mount tractor tires on farmers' equipment in the field.

Related Services

From the days of the earliest settlers, Americans have been using cooperatives to solve mutual problems and provide specialized services. The early fire departments, for example, were truly cooperative-they consisted of neighbors passing water buckets from hand to hand to put out the fire on a neighbor's property.

More recently, cooperatives have been used to provide an ever-widening variety of specialized services.

developing water, and (2) distributing the water to users, or to some point from which users may direct it to their lands.

Since the early 1900's, livestock producers have teamed up with the Federal Government to use, and improve while using, certain public and private land. Often this teamwork has been through cooperatives.

In 1934, Congress passed the Taylor Grazing Act. This act authorized the Secretary of Interior to set up grazing districts that should be used for grazing livestock or raising forage crops.

The machinery for setting up grazing districts was fairly simple. Because they usually included both public and privately held land, public hearings on feasibility of the proposed districts were held. If found to be feasible, the Secretary of Interior issued rules and regulations designed to ensure that the objectives of the act would be met.

These objectives are to: (1) Regulate occupancy and use; (2) preserve the land from abuse; (3) develop the range in an orderly manner; (4) protect and rehabilitate the grazing areas, and (5) stabilize the livestock industry dependent on use of public land at the time the act was passed.

Since the early 1900's, grazing associations and others have been using certain areas 0f our national forests.

The authority of the Secretary of Agriculture to permit, regulate, and prohibit grazing in the national forests emanates from the Organic Administration Act of June 4, 1897, and the Granger-Thye Act of April 24, 1950. This authority has in turn been delegated to the Chief, Forest Service, by Secretary's regulations.

Livestock grazing in the national forests is administered under a permit system. The permits may be issued to individuals, partnerships, corporations, or grazing associations, usually for 10 years.

In discussing cooperatives, we usually pay the most attention to ways in which they contribute to our income. But some cooperatives provide services that also help make our lives a little more comfortable in one way or another.

Electric and Telephone Utilities

Today, nearly every family in rural America has electric light and power, thanks in substantial degree to the Rural Electrification Administration (REA) and to member-owned rural electric cooperatives. Most also have telephone service, thanks to REA and telephone cooperatives.

Electric and telephone cooperatives are like other cooperatives in most respects. They are democratically controlled, they provide services at cost, and they exist for the sole purpose of providing service for their member-owners. But they differ from other cooperatives in two major respects. Because both electric and telephone cooperatives have exclusive right to serve specified rural areas in most States, anyone living in those areas who wants electric or telephone service must become a patron, and thus a member of the cooperative.

Another way rural electronic and telephone systems are different from other cooperatives is in their use of Government financing. In 1991, REA loans totaled more than $477 million to rural electric cooperatives and $35 million to rural telephone cooperatives.

Rural Electric Service

In 1935, REA was created to help farm families and other rural people get electricity on a continuing basis. A year later, Congress passed the Rural Electrification Act. This legislation authorized REA to make loans in an amount determined annually by Congress for the construction of facilities to serve persons in unserved rural areas. These loans are for a maximum period of 35 years.

In 1973, the Rural Electrification Act was amended to expand the resources available for financing rural electric and telephone systems, provide for insured and guarantee loans at reasonable interest rates, and reduce the impact of the REA program on the Federal budget. A revolving fund was established through collections on outstanding and future REA loans and from the sale of borrowers' notes to the Secretary of Treasury or the private money market. Limitations on the amount authorized for loans may be imposed by Congress annually.

REA guarantees loans to facilitate obtaining financing for large-scale electric and telephone facilities from non-REA sources. Guarantees are considered if such loans could have been made by REA and may be made concurrently with an REA loan.

Rural electric cooperatives also have their own self-help institution, the National Rural Utilities Cooperative Finance Corporation (CFC), as a supplementary financing source. In
equity totaled more than $1.4 billion in CFC, which had total credit commitments of nearly $12 billion. Under a form of common mortgage agreement, REA gives loans made by CFC and other non-governmental lenders equal status with those of REA on a pro rata basis.

REA also offers its borrowers technical assistance in engineering, accounting, and management development.

Most REA electric borrowers are rural electric cooperatives. Each is an independent, locally owned business enterprise, incorporated under laws of the State in which it operates.

Nearly all consumers served by an electric cooperative are members. They share ownership of the electric system and have a voice in its operation. Altogether, more than 31 million people are served by these cooperatives. Each member has one vote in the election of the board of directors and in any other decisions brought up at the annual meeting of the organization.

Members of rural electric cooperatives pay a membership fee of $5 to $10 that is generally returnable in case the member leaves the area. Ownership investment, in place of shares of stock, accumulates for members from any amounts in excess of the cost of service that they pay their cooperative through monthly billings.

The charge for electric service from an electric cooperative is set at a level to cover the cost of providing the service, plus an amount to repay REA or other type loan on a schedule and a small margin to assure sufficient operating capital and reserves.

The bylaws in most electric cooperatives specify what shall be done with margins that remain after payment of all expenses. Some organizations return the margins in the form of rate reductions, others as cash patronage refunds. Most rural electric cooperatives have written into their bylaws a provision for "capital credits." This is known among other types of cooperatives as a "deferred patronage refund."

Membership of the typical electric cooperative turns out once a year, usually in late summer, for an all-day meeting. At that time, the officers and the manager report to the members on progress and problems. The members vote to fill vacancies, and the board of directors (usually nine) then elects officers from its own ranks.

The typical electric cooperative publishes a monthly newsletter that is mailed to its members, or keeps its members informed about the cooperative through the newspaper or magazine of a statewide association of electric cooperatives that is published and mailed once a month.

Besides being a member of a statewide organization, the cooperative also belongs to the National Rural Electric Cooperative Association, a trade association with offices in Washington, DC.

Rural Telephone Service

Rural telephone cooperatives operate under the same general cooperative principles as rural electric cooperatives. About 252 telephone cooperatives provide service to 1 million subscribers in 45 States and territories. They obtain funds from REA and from the Rural Telephone Bank—an agency of the United States established in 1971 to provide supplemental financing or telephone systems. Bank loans are being made for the same purpose as loans made by REA but bear interest at a rate consistent with the Bank's cost of money. In addition, 6 of the Bank's 13-member board of directors are elected by the Bank's stockholders.

The National Telephone Cooperative Association, Washington, DC, is the trade association for rural telephone cooperatives.

Farm Insurance

Cooperatives organized to offer fire insurance protection to farmers are called mutual fire insurance companies. Estimates indicate that these companies carry more than 50 percent of all the fire insurance coverage on farm buildings in the United States.

Mutual fire insurance companies have served Americans for more than 200 years. In 1752, Benjamin Franklin helped to start what may have been the very first one in North America, a mutual insurance cooperative with the imposing title of Philadelphia Contributionship for the Insurance of Houses from Loss of Fire.

When mutual fire insurance companies were small, assessments were made after each loss. Most mutuals today operate on an advance assessment basis, as do other types of insurance companies.

Many farmers' mutual life insurance companies start operating in rather small areas, such as a township or a country. In recent times, these companies, while continuing to serve rather restricted areas, spread the risk by reinsuring with similar companies in other areas, or with specialized mutual reinsurance companies. This has the double advantage of avoiding failure should a disaster such as a tornado hit the area served, and permitting the company to write large policies.

Farmers' mutual fire insurance companies are true cooperatives. Policyholders, who are the members, own the company and control it through a board of directors.

At one time, directors acted as representatives and actually wrote insurance applications. **Today,** the trend is to have this done **by paid** employees.

Farmers' mutual fire insurance companies have been leaders in fire prevention work. They may make periodic inspections of insured property, and almost always check for the presence of potential fire hazards prior to issuing a policy. They publish and distribute educational materials on fire prevention.

Health

In some sparsely populated areas, it has been difficult to attract and hold competent doctors and medical facilities. But with increasing awareness of the importance of good health and skilled doctors has come the development of rural health cooperatives. By pooling members' resources, these associations have been able to build clinics, attract good doctors, and devise medical programs keyed to the needs and incomes of the members.

Similarly, city people in a number of communities have organized group health cooperatives to provide general or specialized medical services, equipment, and medicines.

Health cooperatives are like most other cooperatives in being formally incorporated, and democratically owned and controlled. The members elect a board of directors to establish policy and employ a business manager. Because of the nature of the services provided by a health cooperative, doctors on the staff control the medical aspects of the association and may consult with the board from time to time on policy matters.

The health cooperative serves the staff doctors as well as the members, in the sense that doctors are freed from administrative problems, finances, housekeeping details, and other distractions ordinarily associated with professional practice. The doctors can spend full time being doctors. In some instances, they have access to highly specialized and expensive equipment beyond the reach of the individual medical practioner.

Two general types of credit services have been organized by farmers and other rural residents. One is for credit to run a business; the other primarily for personal services.

The cooperative Farm Credit System is largely oriented to procuring outside investment capital to support farming operations and farmer cooperatives. Rural credit unions are formed by members who pool capital and lend to each other.

Farm Credit System

The Farm Credit System is a nationwide network of borrower-owned banks and associations that provide credit and financially related services to farmers, ranchers, aquatic producers, cooperatives, rural utilities, rural home buyers, and other eligible borrowers. The System is the largest single provider of credit to agriculture, having a loan volume in excess of $50 billion. The system is composed of the following:

Farm Credit Banks

Eleven district banks provide loan funds and services to their system associations. The district banks are in Springfield, MA; Baltimore, MD; Columbia, SC; Louisville, KY; St. Louis, MO; St. Paul, MN; Omaha, NE; Wichita, KS; Austin, TX; Sacramento, CA; and Spokane, WA.

Federal Land Bank Associations act as agents of the Farm Credit Banks. They make long-term loans primarily to purchase farm real estate and rural homes. They also refinance existing mortgages and other debt.

Federal Land Credit Associations were formerly Federal Land Bank Associations but now have received a transfer of direct long-term real estate lending authority from the district bank.

Production Credit Associations make short- and intermediate-term loans for a variety of purposes, including for operating expenses, farm equipment, livestock, farm buildings, and other capital improvements that normally have maturities of less than 7 years.

Agricultural Credit Associations are merged combinations of Federal Land Bank Associations and Production Credit Associations. They provide a full range of financing options, and have received authority from the district bank to make and participate in long-term real estate mortgage loans.

Banks for Cooperatives

Three banks specialize in making loans to cooperatives and other eligible borrowers.

CoBank (The National Bank for Cooperatives) is headquartered in Denver, CO, and has 10 regional offices: Austin, TX; Baltimore, MD; Columbia, SC; Jackson, MS; Louisville, KY; Omaha, NE; Sacramento, CA; St. Louis, MO; Spokane, WA; and Wichita, KS. CoBank offers financial and leasing services to cooperatives, rural utility systems, and other eligible entities. It provides financial services to international customers for the benefit of U.S. farmer-owned cooperatives.

Two banks for cooperatives elected not to merge into CoBank in 1989. The St. Paul (MN) Bank for Cooperatives and the Springfield (MA) Bank for Cooperatives also offer a complete line of credit and leasing services to agricultural cooperatives, rural utility systems, and other eligible entities.

Other Farm Credit Institutions

Farm Credit Leasing Services Corporation, Minneapolis, MN, has offices around the country to provide leasing for vehicles, farm field equipment and structures, computers, and other equipment.

Federal Farm Credit Banks Funding Corporation, New York City, manages the marketing and sale of FCS securities, which are the primary source of loan funds for FCS banks and associations. The Funding Corporation also provides financial and advisory services and supports FCS banks in the management of interest-rate risk.

Farm Credit Corporation of America coordinates systemwide policies and standards and provides a variety of shared services.

Farm Credit Council is a Washington, DC, federated trade association that represents FCS and its borrowers before Congress, the Administration, and other groups.

The Farm Credit Administration, an independent Government agency, supervises the cooperative Farm Credit System. This supervision includes periodic examinations of each of the System's banks and associations. All expenses of the Farm Credit Administration are assessed against the banks and associations it supervises. FCA is administered by a three-member full-time board. Directors are presidential appointees who serve 6-year staggered terms. The board chairman also serves as the chief executive officer.

Credit Unions

A credit union is a cooperative whose services include encouraging savings or thrift, teaching the wise use of money, and providing a source of loan funds at reasonable rates. It is an organization chartered and supervised either by a State or by the Federal Government through the Bureau of Federal Credit Unions.

Of the more than 15,000 credit unions in the United States, about 850 chartered under Federal and State statutes are in rural areas.

Membership in a credit union is limited to persons having some common bond such as working in the same plant or belonging to the same organization. A person becomes a member by applying for membership, and paying a nominal entrance fee of $5.

Credit unions in the United States began in 1909 when Massachusetts passed the first State credit union law. Most of the other States now have similar laws.

In 1934, Congress passed the Federal Credit Union Act. Its provisions are similar to many State credit union laws.

Members control a credit union through a board of directors, a supervisory committee, and a credit committee, elected annually.

No credit union officer except the treasurer, who acts as manager, draws any pay. Often the treasurer serves without pay, or at best a nominal salary, especially when the credit union is starting.

Members' savings are called shares. Share deposits may be made in small amounts and may be withdrawn at will under most circumstances.

From funds saved by members, the credit union may make loans to members. Repayments are made on a mutually agreed schedule, with interest charged only on the unpaid balance of the loan outstanding. Loan applications are reviewed for approval by the credit committee.

Net income from lending operations is usuaSly distributed to members as share dividends, aftcr reserves have been sct asidc.

A great many credit unions serving rural areas have been sponsored by farmer cooperatives, which often provide office space on their premises. Because credit unions do not normally require outside financial support and because their existence promotes cmployee morale and efficiency, other cooperatives find it uscful to give a helping hand.

Because of the self-help nature of credit unions, they are particularly useful in programs to help low-income people. A number have been started in low-income housing projects and neighborhoods as part of a community action program providing a number of services.

Cooperatives or their members have established State and National organizations to provide functions specific to the cooperative or functions common among them. Additionally, several government agencies carry out activities in support of cooperatives.

Forty State cooperative organizations, some representing both producer and consumer cooperatives, provide primarily legislative and educational services. Additionally, most credit unions belong to the State Credit Union League in the State in which they are situated.

National trade associations may serve a specific type of cooperative, such as the National Milk Producers Federation, National Rural Electric Cooperative Association, or Credit Union National Association. Other national organizations may serve a broad range of cooperatives, such as the National Council of Farmer Cooperatives and the National Cooperative Business Association. These national organizations focus primarily on legislative activities, but also are important sources of education, insurance, and management services.

Several government agencies support cooperatives. They include agencies in the U.S. Department of Agriculture, such as Agricultural Cooperative Service for economic and educational assistance and the Rural Electric Administration for credit. Other government agencies have regulatory functions. Examples are the Farm Credit Administration and the National Credit Union Administration.

Further information about these national support activities is contained in CIR 1, Sec. 5, “Organizations Serving Cooperatives,” also available from Agricultural Cooperative Service.

An easy way to learn more about cooperative agribusiness firms as they are today is to visit and inquire about those serving your own area. Some cooperatives are headquartered in large cities. Most have plants or offices in smaller towns or rural communities.

See how many cooperatives you can name serving an area that lies within a radius of 10 miles around you. What would you like to learn about these cooperatives and whom would you ask about them?

Some questions can be asked of members. A member of the cooperative board of directors living in your vicinity would be an ideal source of information. You might talk to a cooperative field representative, an officer manager of a local cooperative, or a public relations director of a regional organization.

You might be invited to attend a membership meeting held in your area. You can learn many facts from reading several issues of a cooperative's magazine, newsletter, or newspaper.

In surveying a cooperative, what are the important things to learn about it? Here are a few:

1. What services does it perform?

2. What other businesses provide similar services? What was the need that led to organization of the cooperative?

3. What types of patrons are its members? Do they regularly patronize it? Do they represent a substantial percent of residents in the area who are eligible for membership?

4. What are the requirements for membership?

5. Is there a membership agreement-a marketing agreement if it is a marketing association?

6. How is such an agreement enforced? Successfully?

7. Is the cooperative's structure centralized or federated?

8. How are patronage refunds distributed? How is the patron informed on contributions to the cooperative's capital structure? Of revolving fund credits?

9. Are dividends paid on capital stock? What rate?

10. How long is the revolving fund cycle?

11. If it provides a marketing service, how do total returns to patrons compare with those paid by competing firms? If it provides a purchasing service, how do operating costs compare with those of competing firms? If it provides other services, how do costs or charges compare with those of competing firms?

12. Is the cooperative expanding in volume of business or in services performed?

13. Is membership growing or diminishing? Why?

14. Are directors respected in their communities as reliable, responsible, and public-spirited people?

15. Does the cooperative appear to be progressive or is it inclined to "follow the leader?"

16. Are members loyal in their attitude toward the cooperative? Do they speak well of it?

17. What services does the cooperative provide?

18. If it is a marketing association, does it sell primarily to wholesalers, retailers, or both? Does it export products to other countries?

19. Does the cooperative own or operate assets such as refineries, oil wells, fertilizer plants, feed mills, dried milk plants, canneries, slaughterhouses, poultry dressing plants, irrigation canals, research laboratories, or computers?

20. Does the cooperative allow members to buy supplies on credit?

You may be unable to find answers to all these questions at the time or from one person. All the answers you do get, however, will contribute to your knowledge of the association and help you evaluate its contribution to your community.

Things you learn about one cooperative may not be true of another. Cooperatives throughout the Nation differ widely in services performed, number and resident area of members, financial management and operations, size of staff, number of directors, and concentration of membership.

They all have four distinctive characteristics in common, however:

-Service at cost;

-Financial obligation and benefits proportional to use;

-Limited return on equity capital; and

-Democratic control.

If you are a member of Future Farmers of America, 4-H Club, or other group, you may find that membership in a cooperative serving your area would be helpful to your group or to you in your supervised farming project. You would then have a practical purpose in your inquiry.

It would be necessary to determine whether the cooperative considers you, or your group as a whole, eligible for membership. What type of cooperative service could your group use?

The cooperative might market eggs, poultry, hay or other crops or livestock produced on a chapter farm. It might purchase feed, seed, fertilizer, spray, petroleum products, or containers. It might provide some needed related service such as custom pest control.

If your group joins a cooperative, every member should be aware of the obligation of members to provide capital to the cooperative business in proportion to their patronage of it.

Membership carries advantages; it also carries responsibilities. Group members should keep informed regarding the cooperative's policies and operations and should attend membership meetings, or at least your group should be represented at them. Your members should vote for directors and in all elections of the organization. Cooperative members should be active, interested, supporting, and informed.

In some chapters or clubs, each incoming member pays a small membership fee and may purchase a revolving fund credit from a graduating member. Some chapters with a farm belong to several cooperatives.

For their members, cooperative activity is part of the learning process. It unites group members in a common effort and business interest; it may yield savings to group members.

Your interest in agribusiness may be academic or it may be as a prospective part owner of a cooperative. You may even find you are a prospective employee.

It is obvious from the range of activities in agribusiness that cooperatives represent great opportunities for young people with agricultural experience, interest, training, and a bent toward a career in business and management.

Practical farming, also, because of its complexity, requires far more knowledge, skills, managerial ability, and capital than it used to.

One agribusiness leader predicted "...a generation hence the most severe shortages in America may be in men and women trained to produce and handle food and fiber.. ."

He added, "If population estimates are correct and our population increases 361 million within the next 35 years, agribusiness will need to double its production and processing capacity merely to maintain our present nutritional level."

Where will the people needed to manage agribusiness growth and expansion come from?

Agribusiness offers job opportunities for an estimated 13,000 to 15,000 agricultural college graduates each year. Degrees in colleges of agriculture are offered at all levels: 2-year certificates, bachelor's, master's, and doctorate.

Many agribusiness firms, particularly farmer cooperatives, offer work opportunities for vocationally trained young people at the technician and skilled level where farm background is valuable. Many area schools, junior and community colleges, and institutes offer programs leading to agribusiness careers.

Variety of Careers

In addition to farming and ranching, job opportunities in agribusiness include careers in research, conservation, management, education, sales, communications, and many technical occupations.

Related service or support careers include agribusiness consulting; accounting and computer programming; financial and economic analysis; legal counseling; and governmental affairs.

Career opportunities exist in a variety of technical fields, such as chemical and mechanical engineers, animal scientists, biologists, architects, agronomists, computer technicians, botanists and plant breeders, and many more.

Because agribusiness covers such a wide range of activities, opportunities for young people exist regardless of whether they have lived on farms. An increasing number of these opportunities are in the Nation's farmer-owned cooperatives.

Education Requirements

In the great variety of occupations in agribusiness, the necessary qualifications are as varied as the positions available. There are places for high school graduates, for business school graduates, for individuals trained as specialists, and for college or university graduates.

As in other types of business, the responsibilities assigned, the authority given, and the salary paid are roughly commensurate with the extent of the employee's education. While many agribusiness employees do not possess college degrees, college graduates are preferred for administrative posts. Directors of research or research analysts usually hold a Ph.D. degree.

People with business college training are needed on accounting staffs, as secretaries, and as office managers. College graduates with some knowledge of the commodities being handled by a cooperative are generally preferred as field representatives. In addition to formal training, experience is desirable for the several department heads in a cooperative in their respective fields such as sales, production, manufacturing transportation, and procurement of supplies.

College training in journalism is an advantage to an editor or publications director.

Many agribusiness firms employ a credit manager, who should have a thorough knowledge of members' monetary needs and earnings and of sound financial procedures.

A few firms maintain a research department. This department may be concerned with economic research, product research, consumer preferences and acceptance, or operating techniques and problems.

Usually the manager of a cooperative or other agribusiness firm handles public relations through published material, contacts, speeches, articles, and entertainment of guests and visitors. Some larger firms employ a public relations director, and many cooperatives have an employee who specializes in member relations.

Next to a good education, the most important qualification for an agribusiness employee is perhaps the realization that the business firm will prosper only if it serves patrons efficiently and adequately.

Sincere interest in the field of business or service in which the firm is engaged, a liking for people and understanding of differences in attitudes and problems, willingness to work diligently, suitable educational preparation, and genuine friendliness of manner are probably the most sought after characteristics in prospective cooperative and other agribusiness employees.

Cooperatives are already in the forefront in bringing technological changes to the business of agriculture. Indications are that cooperatives will become more and more important in producing agricultural products, and in getting the products to consumers.

In the years ahead, the need for agricultural producers to tap the mainstream of all sorts of skills and scientific advances will be even more urgent than in the past. Producers going it alone need to be a financial and management analyst for their own enterprise; a soils, crop, and livestock scientist; a cultural and harvesting export; and have some knowledge of many other technical professions.

One person alone will find it difficult to keep up with the speed at which new knowledge comes on the scene. Just as other businessmen, the individualist increasingly has to hire this professional expertise in many different fields on a part-time basis.

Few farmers are able to afford their individual set of experts, but they can cooperatively.

Some cooperatives have a service where growers use computers to link with the headquarters office hundreds of miles away to get immediate answers to specific questions on their farming or co-op operations.

Research farms that growers own and operate through their cooperatives will be even more important in the future. These farms can take the basic research from the State and U.S. Departments of Agriculture and others, test and adapt under actual farming conditions, and then demonstrate to growers and co-op personnel how those results aid the grower.

Requirements in processing and marketing farm products are constantly changing, and the cooperative is one way farmers can meet these requirements while retaining control of their products.

Farmers need cooperatives more than ever, for financial survival. The cooperative gives them a usable business and scientific intelligence to draw from as well as an apparatus for buying and selling.

One farmer alone could indeed be a weak voice lost in tomorrow's vast marketplace. But the voices of many-speaking in unison-an have an impact.

In all aspects of agribusiness, the farmer of tomorrow and beyond faces many exciting challenges and questions.

Will the desalted waters of the oceans and the seas flow inland to water the land? And will producers have some control over use and cost of this water?

Will hydroponics become a threat to farming as we know it today or a blessing wisely used to better feed people?

And as these or other things come to pass, will farmers be priced out of their own businesses?

Or will farmers find ways to survive-by adapting cooperatives to their needs or by other forms of endeavor?

The following questions cover the main points you should know about cooperatives. If you can answer them, you have a very good understanding of the role of cooperatives in agribusiness.

1. What are the three ways of doing business in the United States? Discuss.

2. Which of the three ways is the one usually used by cooperatives? Why?

3. Describe and discuss the four distinctive features of all cooperatives.

4. A cooperative is usually incorporated. In what respect is a cooperative like investor-oriented corporations? In what respects different?

5. What are the advantages of incorporating a business firm?

6. Many people think that cooperatives are just for farmers. But we have learned that cooperatives are for city people, also. Give examples of cooperatives that serve city people.

7. Is there any difference in the distinctive features of cooperatives that serve farmers and those that serve city people? Discuss.

8. What are the two basic legal documents of a corporation? What do they do?

9. How is a cooperative managed and controlled? Describe the three groups of people involved in the operation of a cooperative. What are their respective roles?

10. How does a cooperative get the money it needs?

11. What is the Farm Credit System? Describe it.

12. What is the Rural Electrification Administration?

13. List and describe four kinds of services provided by cooperatives.

OTHER PUBLICATIONS

Farmer Cooperatives in the United States. CIR 1.
Available in the following sections:

1 -Cooperative Principles and Legal Foundations
2 -Agricultural Cooperatives: Pioneer to Modern
3 -Cooperative Benefits and Limitations
5 -Organizations Serving Cooperatives
6 -Cooperative Organization and Structure
7 -Cooperative Member Responsibilities and Control
8 -Cooperative Management
l&Cooperative Education and Training
1 l-Cooperative Communications
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13-Fruit, Vegetable and Nut Cooperatives
14—Livestock and Wool Cooperatives
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17-Poultry and Egg Cooperatives
18—Cotton Cooperatives
1 9—Special Crop Cooperatives
20—Cooperative Supply & Equipment Operations
23-Cooperative Petroleum Operations
26-Cooperative Historical Statistics.

How To Start a Cooperative. Gene Ingalsbe and James L. Goff. CIR 7. Revised 1986. 51 pp.

What Are Patronage Refunds? Donald A. Frederick and Gene Ingalsbe. CIR 9. Revised 1985. 12 pp.

Is a Co-op in Your Future? C.H. Kirkman, Jr. CIR 10. Revised by Gene Ingalsbe and James L. Goff. 1985. 34 pp.

Advising People About Cooperatives. Galen W. Rapp. CIR 29. Revised 1991. 39 pp.

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